

*Price Waterhouse LLP*



Report of Independent Accountants on Compliance

To the Federal Financial Institutions  
Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the year ended December 31, 1996, and have issued our report thereon dated February 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Council is the responsibility of the Council's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Council's compliance with certain provisions of laws and regulations. However, providing an opinion on overall compliance with such provisions was not the objective of our audit of the financial statements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Council. However, this report is a matter of public record and its distribution is not limited.

*Price Waterhouse LLP*

February 28, 1997  
Arlington, Virginia

*Price Waterhouse LLP*



Report of Independent Accountants on Internal Controls

To the Federal Financial Institutions  
Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the year ended December 31, 1996, and have issued our report thereon dated February 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Council is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Council for the year ended December 31, 1996, we obtained an understanding of the internal controls. With respect to the internal controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal controls. Accordingly, we do not express such an opinion.

Our consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls and their operation that we considered to be material weaknesses as defined above.

This report is intended for the information of the Council. However, this report is a matter of public record and its distribution is not limited.

*Price Waterhouse LLP*

February 28, 1997  
Arlington, Virginia

*Price Waterhouse LLP*



Report of Independent Accountants

To the Federal Financial Institutions  
Examination Council

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 1996 and 1995, and the related statements of revenues and expenses and fund balance and of cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 1997 on our consideration of the Council's internal controls and a report dated February 28, 1997 on its compliance with laws and regulations.

*Price Waterhouse LLP*

February 28, 1997  
Arlington, Virginia

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**

**BALANCE SHEET**

	<u>As of December 31,</u>	
	<u>1996</u>	<u>1995</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 821,043	\$ 991,681
Accounts receivable from member organizations	540,205	471,402
Other accounts receivable	255,113	252,532
Prepaid expenses	<u>222</u>	<u>13,687</u>
Total current assets	<u>1,616,583</u>	<u>1,729,302</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	251,088	248,445
Less accumulated depreciation	<u>191,775</u>	<u>168,126</u>
Net furniture and equipment	<u>59,313</u>	<u>80,319</u>
LEASEHOLD IMPROVEMENTS, net of amortization	<u>26,322</u>	<u>42,738</u>
Total assets	<u>\$1,702,218</u>	<u>\$1,852,359</u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES		
Accounts payable to member organizations	\$ 596,778	\$ 696,036
Other accounts payable and accrued liabilities	500,711	250,642
Accrued annual leave	<u>48,058</u>	<u>48,043</u>
Total current liabilities	<u>1,145,547</u>	<u>994,721</u>
DEFERRED RENT (Note 5)	<u>98,083</u>	<u>137,360</u>
FUND BALANCE	<u>458,588</u>	<u>720,278</u>
Total liabilities and fund balance	<u>\$1,702,218</u>	<u>\$1,852,359</u>

The accompanying notes are an integral part of these statements.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**

**STATEMENT OF REVENUES AND EXPENSES AND FUND BALANCE**

	For the Years Ended December 31,	
	<u>1996</u>	<u>1995</u>
REVENUES		
Assessments to member organizations	\$1,123,000	\$1,345,200
Tuition	1,462,130	1,682,999
Other revenue (Note 4)	<u>2,734,752</u>	<u>2,190,499</u>
Total revenues	<u>5,319,882</u>	<u>5,218,698</u>
EXPENSES		
Salaries and related benefits	1,403,434	1,327,267
Data processing	2,779,681	2,215,677
Rental of office space	628,583	631,776
Travel	148,816	185,409
Professional fees	131,336	150,164
Printing	170,467	91,455
Rental and maintenance of office equipment	43,139	82,488
Office and other supplies	40,955	69,287
Administrative fees	51,200	49,000
Depreciation	40,065	37,952
Postage	36,705	28,793
Telephone	14,805	18,865
Books and subscriptions	10,012	15,190
Miscellaneous	<u>82,374</u>	<u>166,500</u>
Total expenses	<u>5,581,572</u>	<u>5,069,823</u>
REVENUES OVER (UNDER) EXPENSES	(261,690)	148,875
FUND BALANCE, Beginning of year	<u>720,278</u>	<u>571,403</u>
FUND BALANCE, End of year	<u>\$ 458,588</u>	<u>\$ 720,278</u>

The accompanying notes are an integral part of these statements.

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## STATEMENT OF CASH FLOWS

### INCREASE (DECREASE) IN CASH

	For the Years Ended December 31,	
	<u>1996</u>	<u>1995</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ (261,690)	\$ 148,875
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Depreciation	40,065	37,952
Increase in accounts receivable	(71,384)	(117,770)
Decrease in prepaid expense	13,465	(13,687)
Increase in accounts payable and accrued liabilities	150,811	200,771
Increase in accrued annual leave	15	1,594
Decrease in deferred rent	<u>(39,277)</u>	<u>(9,983)</u>
Net cash provided (used) by operating activities	<u>(167,995)</u>	<u>247,752</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(2,643)</u>	<u>(26,187)</u>
Net cash used in investing activities	<u>(2,643)</u>	<u>(26,187)</u>
NET INCREASE (DECREASE) IN CASH	(170,638)	221,565
CASH BALANCE, Beginning of year	<u>991,681</u>	<u>770,116</u>
CASH BALANCE, End of year	<u><u>\$ 821,043</u></u>	<u><u>\$ 991,681</u></u>

The accompanying notes are an integral part of these statements.



# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## NOTES TO FINANCIAL STATEMENTS

### (1) ORGANIZATION AND PURPOSE

The Federal Financial Institutions Examination Council (the "Council") was established under title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies which are represented on the Council, referred to hereafter as member organizations, are as follows:

Board of Governors of the Federal Reserve System

Federal Deposit Insurance Corporation

National Credit Union Administration

Office of the Comptroller of the Currency

Office of Thrift Supervision

The Appraisal Subcommittee of the Council was created pursuant to Public Law 101-73, title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The functions of the Appraisal Subcommittee are related to the certification and licensing of individuals who perform appraisals in connection with federally related real estate transactions. Members of the Appraisal Subcommittee consist of the designees of the heads of those agencies which comprise the Council and the designee of the head of the Department of Housing and Urban Development. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council's financial statements do not include financial data for the Appraisal Subcommittee other than that presented in note 4.

### (2) SIGNIFICANT ACCOUNTING POLICIES

Revenues and Expenses--Assessments made on member organizations for operating expenses and additions to property are calculated based on expected cash needs. Assessments, other revenues, and operating expenses are recorded on the accrual basis of accounting.

Furniture and Equipment--Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Leasehold Improvements--Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the related lease or the estimated useful life of the improvements.

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## NOTES TO FINANCIAL STATEMENTS

### (3) TRANSACTIONS WITH MEMBER ORGANIZATIONS

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Each member organization was assessed \$224,600 in 1996 and \$269,040 in 1995.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of \$51,200 for 1996 and \$49,000 for 1995.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$2,822,012 in 1996 and \$2,126,376 in 1995.

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions, disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any postretirement or postemployment benefit liabilities due to the fact that Council employees are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.

### (4) OTHER REVENUE

	<u>1996</u>	<u>1995</u>
Home Mortgage Disclosure Act	\$1,233,979	\$1,280,977
Uniform Bank Performance Report	258,226	223,578
Appraisal Subcommittee	175,342	178,048
Mortgage Insurance Companies of America	138,418	168,696
Rental	127,104	126,916
Community Reinvestment Act	720,795	125,995
Sale of HMDA Data	78,363	83,511
Miscellaneous	<u>2,525</u>	<u>2,778</u>
	<u>\$2,734,752</u>	<u>\$2,190,499</u>

The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). The Council received \$259,469 in 1996 and

263,043 in 1995 from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project. The Council received \$138,418 in 1996 and \$168,696 in 1995 from the Mortgage Insurance Companies of America for performing HMDA related work for them. The balance of the HMDA revenue for 1996 and 1995 was received from the member agencies.

Continued

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**

**NOTES TO FINANCIAL STATEMENTS**

The Council coordinated and provided certain administrative support to the UBPR project. The Council received \$258,226 in 1996 and \$223,578 in 1995 for operating expenses incurred in support of the UBPR project.

The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received \$175,342 in 1996 and \$178,048 in 1995 from the Appraisal Subcommittee for these services.

The Council provided space to the Board of Governors of the Federal Reserve System (Board). The Council received \$127,104 in 1996 and \$126,916 in 1995 in rent from the Board.

In 1995, development work began to prepare an information system to assist financial institutions with certain Community Reinvestment Act (CRA) requirements. The first full year of operations was 1996. The Council received \$720,795 in 1996 and \$125,995 in 1995 from participating member agencies for operating expenses incurred in support of the CRA project.

(5) DEFERRED RENT

During 1992 the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases which, in accordance with generally accepted accounting principles, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

(6) COMMITMENTS

The Council has entered into operating leases to secure office and classroom space for periods ranging from two to six years. Minimum future rental commitments under those operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 1996, are as follows:

1997	\$ 610,275
1998	<u>437,836</u>
	<u>\$1,048,111</u>

Rental expenses under these operating leases were \$652,865 and \$603,580 in 1996 and 1995, respectively.